STONE & YOUNGBERG

Kenneth E. Williams
President
Chief Executive Officer

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Ms. Naomi Richman
Chief Credit Officer
Global Public, Project and Infrastructure Finance
Moody's Investors Service
250 Greenwich Street
New York, NY 10007

RE: Request for Comment: Assignment of Global Ratings to Tax-Exempt Municipal Obligations

Dear Ms. Richman:

Stone & Youngberg is pleased to have the opportunity to offer our opinion on the Moody's proposal to assign global scale ratings (GSRs) to tax-exempt municipal obligations. As the most active underwriter of municipal bonds in California, and with the State and its municipalities comprising the largest municipal debt market globally, we have a strong interest in your ratings methodology and appreciate your reaching out to the broker/dealer community for comment. Earlier this week we met with several Moody's representatives in our San Francisco headquarters for a round-table discussion of your proposal for mapping municipal ratings to the Moody's global scale.

Stone & Youngberg recognizes that corporations face different challenges to their balance sheets than do public agencies. Yet in the end, both groups should be evaluated on and held to the same standard: *Will the issuer be able to repay its debt?* Ratings assigned by Moody's and other agencies are intended to help investors answer that fundamental question and determine if a corporate bond, municipal bond, or other fixed-income security is a suitable investment. Further, while the bond market looks to ratings as a measure of underlying credit risk, it also uses them as a guide to liquidity: the higher the rating, generally, the greater the demand for that security and the lower the cost of funds for the issuer.

Moody's and other participants in the municipal market have noted that the default rate of municipal bonds is exceedingly low, so we will not belabor that point here. We would add our voice, however, to the chorus decrying the inequality in rating assignments, given the record of municipal bond defaults vis-à-vis those of corporate bonds. When assessing expected loss in both sectors, it is difficult to make the case for holding municipal bonds to a higher standard than corporate credits, despite differences in the financing "backstops" available to each in times of distress. Nonetheless, because of the current dual system, until recently many municipal issuers felt compelled to buy a GSR credit stamp through the use of bond insurance.

Stone & Youngberg supports Moody's proposal to assign global ratings to municipal credits in addition to assigning municipal ratings. But we consider this an interim step only. We advocate that you go farther and develop a single rating scale for fixed income securities that uses a uniform methodology and enables investors to readily assess the important credit differences within each rating category.

A single scale with clear gradations will obviate the need for the Moody's conversion table, yet will raise the stakes for your agency's attention to initial credit research and secondary market surveillance. It is likely that many municipal issuers will receive rating upgrades within the investment-grade range, and liquidity in the short-term market also should improve. More issuers will have variable-rate and other short-term securities 2a-7-qualified, or eligible for purchase by money market funds and other entities requiring top credit quality. We view these changes as a win-win for both public agencies and investors.

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Some market observers have decried a single ratings system as inaccurate at best and harmful to investors at worst. Stone & Youngberg does not share this view. If a credit rating is *based on an issuer's ability to pay,* whether it is a corporation, state, or school district issuer that covenants to meet that obligation, we believe that corporate and municipal borrowers can be evaluated justly and held to the same credit standards. The municipal bond market can and will differentiate among credits so that investors are compensated commensurate with risk.

In sum, Stone & Youngberg supports Moody's initiative to apply a single credit rating scale to the fixed income market. While we understand that a transition from the long-standing municipal scale to a revised global equivalent may, at the outset, cause some confusion for municipal bond sellers and buyers, we also are confident that the market will adapt quickly. When relying on a single scale, investors and the public will ask more questions of issuers, rating agencies, broker/dealers, and others with knowledge of and an opinion on credit. This will result in a better informed and more efficient market, a development we view as positive.

Yours truly,

Kenneth E. Williams